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## Are You Protecting Your Trade Secrets?

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Businesses don't always know that they have trade secrets until they are stolen. The value of a company's confidential information may not come to light until a competitor tries to obtain it or a former employee uses it to compete in the marketplace. Geared toward small to mid-sized businesses, this article will help you identify whether your proprietary information can qualify for protection under the California Uniform Trade Secret Act, how you can determine if you have a valid claim for trade secret misappropriation, and what you can do to protect your trade secrets.

In 1984, California adopted its own version of the Uniform Trade Secret Act ("the Act"). It is the legal basis in California for protection of economically valuable, private information that businesses develop, without the need or expense of a patent or copyright. The Act enables companies to obtain injunctions for actual or threatened trade secret misappropriation and recover damages if trade secrets are stolen. In some instances, it also entitles companies to recover attorney's fees and punitive damages. The Act can be a powerful tool to protect your proprietary information.

This is a continually evolving area of law. To maintain a competitive edge, it is important for all businesses to recognize what valuable information they possess, whether it qualifies as a trade secret, and how to protect it.

### Do you own a "trade secret"?

Proprietary information is not necessarily a "trade secret" under California law. The term "proprietary" is generic, referring simply to ownership. More is required for your proprietary information to qualify for protection under the Act. The Act defines a "trade secret" as:

information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

- (1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and
- (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

In short, a "trade secret" is commercially valuable, secret information that you own. There are limits, however, to what information may qualify as a trade secret entitled to protection under California law. Just because a business calls something a trade secret does not make it one. To evaluate whether information qualifies as a trade secret, California courts will look at a variety of facts. The more difficult the information was to obtain, time and resources spent to develop it, and efforts made to protect it, the more likely it is to qualify as a trade secret. There are essentially three factors that California courts will evaluate to decide whether the information can reach "trade secret" status:

- First, only "information" qualifies as a trade secret. Information may take many forms. The Act gives the potential examples of "a formula, pattern, compilation, program, device, method, technique, or process". California courts have recognized as trade secrets such things as customer lists, strategic and marketing plans, and computer software. However, not all customer lists, recipes, plans, or formulas necessarily qualify. The second and third factors below must also be met.



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- Second, the information must be commercially valuable. It is not enough that the owner deems the information valuable to render it a trade secret. To qualify for protection under the Act, the information must be of economic value to other businesses. It cannot be readily ascertainable by others from publicly available sources. For example, an avocado wholesaler's customer list, which consists solely of grocery stores and fruit and vegetable stand retailers would not, without more, constitute a trade secret because those customers are no secret to the owner's competitors. On the other hand, a customer or vendor list that was expensive, time consuming, and difficult to develop will qualify as a trade secret.
- Third, the information must be the subject of reasonable efforts to maintain its secrecy. This does not mean that businesses must go through extraordinary measures to maintain their trade secret's confidentiality. California courts look at the trade secret protection plan overall, i.e. the total efforts made to treat the information as a confidential. Factors that California courts have identified as evidence to support trade secret status include, among others,: (1) limiting access to and/or physical segregation of the information, (2) confidentiality agreements with those privy to the information, and (3) marking documents with warnings or reminders of confidentiality. Trade secret protection plans are discussed further below.

## **Do you have a claim for trade secret misappropriation?**

The Act prohibits someone from improperly taking and using your trade secret. Trade secret misappropriation is a very specifically defined wrong that can be challenging to prove.

The owner of the trade secret is protected only against the appropriation of the secret by improper means and the subsequent use or disclosure of the improperly acquired secret. The Act defines "improper means" as including "theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage". To prove trade secret misappropriation, the person accused must have known or had reason to know that s/he was not in rightful possession of the information.

Unlike a copyright or patent owner, trade secret owners do not hold a monopoly over the trade secret's use. There are various legitimate means, such as reverse engineering or independent derivation, by which a trade secret can permissibly be recreated and used. For that reason, it can be difficult to distinguish between a former employee's unapproved use of a trade secret and his or her constitutional right to use his or her knowledge, skill, and experience in free competition. In many cases, experienced intellectual property litigators are necessary to help investigate and evaluate potential claims.

Companies cannot prevent their employees from leaving to work for a competitor who has serious interest in its trade secrets. California courts will not assume that an employee will inevitably disclose a trade secret to which he or she had access. Our society is extremely mobile and our free economy is based on competition. There are preventative measures, however, that may effectively deter former employees from stealing your trade secrets and help ensure that they will be held liable if they do misappropriate them.

## **How do you maintain and protect your trade secret?**

Treat your trade secrets like the valuable commodities they are. A trade secret can lose its status if not protected. Dissemination of the confidential information to others who have no obligation to protect its confidentiality extinguishes the property right. Reasonable efforts must be made to maintain its secrecy.



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Create a trade secret protection plan. Following are some of the important strategies you should consider as part of your plan to maintain trade secret status and protection:

- Identify and label your trade secrets.

Identify your trade secrets and label them as confidential. A simple legend or stamp can be used that warns the viewer that the document contains trade secret information, which unauthorized disclosure is prohibited.

- Track how the trade secret is developed.

Document how you developed the trade secret information. Consider from what sources of information it derived, how it evolved over time, and what efforts were made to create it. The better your documentation, the more likely the trade secret will be protected. Such detail may also support your misappropriation claim by helping distinguish between a former employee's proper use of his or her knowledge, experience, and skill, and improper misappropriation of your trade secret.

- Use employee manuals, training materials, and reminders.

Reference the existence and confidentiality of your trade secrets in employee manuals. Train employees on the importance of maintaining their confidentiality and the penalties for the improper use of them.

Remind employees of their contractual obligations to protect and to not use or disclose trade secrets. Routinely collect back from employees outdated copies of trade secret data in their possession. Conduct exit interviews and be sure to demand return of all confidential trade secret data from employees when they are terminated or depart employment.

- Limit access to the confidential information.

Not all your employees may need to know the confidential information. Only disseminate the confidential information to those who need it and keep track of who is given access to the information. Demand that employees return their copies of trade secret information upon termination and/or departure.

Keep the confidential information under lock and key, saved on a different computer database, and/or password protect it. Minimize and track who has access to the information and when.

- Use contracts to protect your trade secrets.

There are different types of contract provisions that can be used with employees, independent contractors, temporary personnel, customers, vendors, and others who gain access to trade secret information. Depending on the business structure, various types of non-disclosure and non-compete agreements may be used. They should be drafted by a knowledgeable attorney to ensure that they are enforceable and that they are adequately written to protect your proprietary information.



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Use confidentiality provisions in employment contracts. It should define the trade secrets, identify them as commercially valuable, and specify the limits of their use. A good confidentiality contract will also include the penalties for breaching those terms, specifying the types of monetary and injunctive relief that a company can recover if it is violated.

Non-compete agreements should be carefully drafted by a knowledgeable attorney. Contracts that restrain an employee from engaging in future competition are generally unlawful in California. However, anti-competition agreements may be permissible where their enforcement is necessary to protect trade secrets. They, therefore, must be very narrowly tailored to protect against disclosure of the trade secret itself, keeping in mind California's strong policy favoring employee mobility and free competition.

Competitors sometimes solicit another's employees, which is permissible so long as they do not use unlawful means or engage in acts of unfair competition. Employers are forced to trust that an employee will comply with his or her contractual obligations in the event he or she eventually goes to work for a competitor. Creating contractual obligations and stressing the importance of the employees' obligations and penalties for violation of those obligations should help deter misappropriation.

## **Prevent the need for litigation.**

Trade secret misappropriation lawsuits are highly fact intensive, which makes them expensive to prosecute and defend. In addition to the time and expense, there are other pitfalls with this type of litigation that should be discussed with an experienced intellectual property lawyer before embarking on such an endeavor. Creating a thorough trade secret protection plan can take minimal time, expense, and effort. Preventative measures will not only deter misappropriation from occurring, it can go a long way to help proving your claim, should the need for litigation arise.

## **About the Author**

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